

**W-2 Contract and Implementation Committee
Policy & Program Development Sub-Committee**

Draft Date: November 7, 2003

Division/C&I Committee/Agency Contact: C&I Program & Policy Committee-
Marilyn Putz, Chair

Topic: Keeping the W-2 cash benefits allocations at the state level.

Problem Description or Issue:

Background: Historically, DWD has characterized W-2 contracts as risk-reward contracts. The risk of being under funded in the benefits allocation was balanced by the potential for performance bonus rewards. However, the rewards have been eliminated by the legislature (no performance bonus awards), but the risk of under funded benefits remains in the contract.

W-2 agencies use allocations to: determine W-2 eligibility; screen, enroll, assess, assign, and pay for W-2 and FSET activities; determine eligibility for W-2 Child Care; fund W-2 cash benefits payments; and administer the program in accordance with state and federal rules and regulations.

The funding structure design has not changed from the initial 1997 W-2 contracts, yet the realities of the W-2 program have changed. Local economic conditions, rather than the local W-2 agency program design or performance, appear to be the greatest influence in determining the needed benefit allocation in a county or area.

In the 2004-05 W-2 contract, DWD, in a way, is retaining the benefits at the state level by redistributing the benefits dollars in year two of the contract term, but the W-2 agencies are still left with the risk of falling short of benefit dollars depending on the redistribution methodology that will be used. DWD could minimize that risk and deal more efficiently and effectively with benefit allocations by keeping the benefit dollars at the state level.

Alternatives:

Option #1 – do not change the current allocation system.

Pros – None

Cons – Does not solve the problem of under-funded W-2 agency contracts.

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Option #2 – Change the current allocation system to keep W-2 cash benefits allocation at the state level. DWD would determine the “Presumptive” Benefit allocation for each W-2 agency using the established methodology. W-2 Agency Admin would be established at 15% of the Services and the initial “Presumptive” Benefit allocation. DWD may revise individual agency Admin allocations if the actual Benefit allocation becomes much greater than the “Presumptive” Benefit allocation during the contract term. W-2 agencies would retain the ability to move dollars from Admin to Services if desired.

Pros –

W-2 agencies could budget local program operations more confidently, which would stabilize local program operations and job center commitments and reduce the risk of W-2 agency turnover.

DWD would realize cost-savings from staff time to account for benefit funding redistributions and process contract modifications.

W-2 agencies will realize cost savings from the elimination of staff time to monitor benefit allocations in their budgeting process.

W-2 agencies will continue to receive Admin funding partly based on the Benefits issued but will have an incentive to stay within the “Presumptive” Benefit allocation since there is no guarantee that additional Admin would be issued for Benefit expenditures beyond the “Presumptive” allocation.

All eligible families who have been assessed to be appropriate payment cases would receive W-2 benefits since the benefits would be sum-sufficient as they are distributed by DWD.

Will eliminate a source of friction between large and small W-2 agencies.

Will streamline the state and local contract process.

Will eliminate a source of criticism from advocates that the benefits funding structure gives an incentive for W-2 agencies to withhold benefits.

Will help maintain a W-2 payment for interagency transfers when appropriate.

May decrease local admin spending.

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Cons –

Will decrease the contract base upon which to predicate 15% admin caps.

W-2 agencies may lose some incentive to contain benefits costs.

W-2 contracts are still under-funded for services.

Will decrease agency fiscal flexibility to transfer funds between services and benefits, although the option to transfer between administration and services will still remain.

DWD may lose local tax levy contributions for benefits payments in excess of allocation.

Comments/Positions by External Partners:

Comments by Technical Reviewers: (i.e., Legal Counsel, DOA, etc.)

Recommendation to Secretary: The Sub-committee recommends Option 2